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TAGS: [ECON](#) [EFIN](#) [EAID](#) [KWBG](#) [IS](#)
SUBJECT: PALESTINIAN BANKS DROWNING IN SHEKELS

REF: TEL AVIV 2343

Classified By: Consul General Daniel Rubinstein, for reasons 1.4b, d

11. (C) Summary: The inability of Palestinian banks to deposit Israeli shekels (NIS) into accounts in Israel is forcing a crisis, according to the Palestine Monetary Authority (PMA). West Bank bank branches now hold NIS 1.4 billion in cash, exceeding the capacity of their vaults. The PMA has asked the Bank of Israel (BOI) for permission to transfer NIS 600 million from the West Bank, but a PMA meeting with the BOI on October 21 made no progress on this issue. Bank of Palestine (BOP) Chairman Hashim Shawa said his bank may have to stop accepting deposits if the situation is not resolved quickly. End summary.

Overflowing Vaults

12. (SBU) West Bank bank vaults have nearly run out of space to store additional NIS, according to the PMA and Palestinian bankers. With the exception of a single transfer of NIS 300 million from the Bank of Palestine to the BOI in early August, there have been no significant cash transfers from Palestinian banks to Israeli banks in 2009. The PMA has had a pending request to transfer NIS 390 million since August, and recently increased that amount to NIS 600 million as deposits piled up. Cash-on-hand at West Bank branches of Palestinian banks now stands at NIS 1.4 billion.

Turning Away Deposits

13. (C) According to BoP Chairman Hashim Shawa, the BoP may be forced to turn away customer deposits by October 30 unless a shipment of NIS to Israel is allowed, freeing up vault space. Shawa said that he has been in direct contact with BOI officials, but that they are reluctant to take on Palestinian cash deposits, claiming it is an "operational burden."

The End of Wire Services?

14. (C) The prohibition on cash deposits from Palestinian banks has led to the near-depletion of deposits held by Israeli correspondent banks. PMA Governor Jihad al-Wazir told Treasury Attache October 27 that if Palestinian banks are not allowed to replenish their deposits in Israeli correspondent banks, wire services between Palestinian and Israeli commercial banks would be forced to stop, as there would be insufficient cash in the accounts to cover those transfers.

Looking for Relief

15. (C) Al-Wazir told Treasury Attache that he thought he and BOI Governor Stanley Fischer could find a "partial resolution" in the near future, although he did not elaborate on the nature of the compromise. He said that if the situation was not properly resolved, "we will find alternatives." A meeting between the PMA and BOI on October 21 (reftel) did not result in any progress, according to PMA officials. (Comment: The PMA has been seeking a permanent solution to the NIS surplus, rather than relying on the ad hoc intervention of Governor Fisher. For al-Wazir, the ideal resolution would be for the PMA to be able to make direct cash deposits with the BOI, on behalf of its commercial banks.)

The PMA's Case

16. (C) There has been steady communication between the PMA and BOI on this issue since the PMA's August request, according to PMA contacts. In response to an early September BOI inquiry on the reasons for the NIS surplus, the PMA assigned 20 bank inspectors to conduct spot checks on large cash deposits throughout the West Bank banking sector. In an October 5 response to the BOI, the PMA reported that it did not find irregularities in large cash deposits and suggested that the main causes of the surplus included: (1) the granting of licenses to 14 new bank branches and 10 new bank offices since June, 2008, which resulted in NIS 200 million in new cash deposits in the banking system; (2) Israeli commercial banks' prohibition on Palestinian banks' cash deposits; (3) new Palestinian banks that have been unable to establish any correspondent relations with Israeli banks,

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including Alrafah Mircofinance Bank, which has NIS 150 million cash-on-hand; and (4) the PA payment of all salary arrears owed to its employees. According to al-Wazir, the PMA also told BOI officials that the increasing number of Arab Israelis travelling to and shopping in the West Bank are effectively transferring cash from Israel to the West Bank.

17. (C) BoP Chairman Shawa told Treasury Attache that he agreed with the PMA's analysis. Shawa said he had been contacted directly by BOI officials, and he gave them two additional reasons for the high amount of cash NIS in BoP vaults: (1) the success of a new line of BoP savings products, which had brought in more than NIS 100 million in new deposits in the last five months; and (2) the opening of eight new branches in eight months, one of which saw almost NIS 20 million in deposits the first month it was open. He also noted wryly that collecting deposits from customers "...is what banks tend to do."

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